

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2009-479-W/S**

IN RE:)
)
Application of United Utility Companies,)
Inc. for adjustment of rates and charges)
and modifications to certain terms)
and conditions for the provision of)
water and sewer service.)
_____)

**REBUTTAL TESTIMONY
OF
JOHN D. WILLIAMS**

1 **Q. ARE YOU THE SAME JOHN D. WILLIAMS THAT HAS PREFILED DIRECT**
2 **TESTIMONY IN THIS CASE?**

3 **A.** Yes, I am.

4 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
5 **PROCEEDING, MR. WILLIAMS?**

6 **A.** The purpose of my rebuttal testimony is to respond on behalf of United Utility
7 Companies, Inc., or “UUC”, to certain statements made by one of our customers, Rica
8 Rose Conover, at the night hearing held on February 23, 2010, in this proceeding and
9 certain statements made in the testimony submitted on behalf of the Office of Regulatory
10 Staff.

11 **Q. WHAT IS THE SPECIFIC AREA OF MS. CONOVER’S STATEMENT UPON**
12 **WHICH YOU WISH TO COMMENT?**

13 **A.** Ms. Conover suggested that UUC should not be allowed to recover investment
14 associated with improvements to UUC’s parent company, Utilities, Inc.’s, or UI’s,

1 computer hardware and software systems which have been allocated to UUC for
2 ratemaking purposes. These improvements, which are referred to internally at UI as
3 “Project Phoenix,” were described in my direct testimony and result in an addition to
4 UUC’s rate base of \$91,060. This addition to rate base would add \$6.49 per customer in
5 rate base annually over the eight year life of these improvements. Using the high end of
6 the ranges of rates of return on equity and overall rates of return recommended by
7 Company witness Ahern, which are 12.80% and 9.50%, respectively, the effect would be
8 to add approximately five cents (\$0.05) to a customer’s monthly bill. If a lower return on
9 equity and overall rate of return were adopted, the effect would be even less. Ms.
10 Conover appears to assert that, because a UI operating subsidiary in a rate relief
11 proceeding in Kentucky was not permitted to include this investment in its rate base, the
12 Commission should not permit it here.

13 **Q. WOULD YOU PLEASE EXPLAIN THE CIRCUMSTANCES OF THE CASE MS.**
14 **CONOVER REFERENCED?**

15 A. Certainly. In that proceeding, which was identified as Case No. 2008-00563,
16 *Application of Water Service Corporation of Kentucky for an Adjustment of Rates*, the UI
17 operating subsidiary sought to include \$568,252 in its rate base associated with UI’s
18 investment in computer and software systems. The Kentucky Attorney General
19 contended that the operating subsidiary in that case had failed to provide evidence that
20 this investment would provide benefits to the operating subsidiary instead of just to UI.
21 In its order entered on November 9, 2009, in that proceeding, the Kentucky Public
22 Service Commission agreed and found that the operating entity failed to demonstrate that

1 the costs of the computer software were reasonable or provided benefits to ratepayers. In
2 so doing, the Kentucky commission was critical of the fact that no analysis was
3 performed regarding the financial impact and benefits to the operating subsidiary of the
4 computer and software investments.

5 **Q. SHOULD THE RULING OF THE KENTUCKY COMMISSION APPLY HERE?**

6 A. No, it should not.

7 **Q. WOULD YOU PLEASE EXPLAIN WHY NOT?**

8 A. Because the circumstances in South Carolina are different. This is so for several
9 reasons. First, unlike South Carolina, Kentucky does not presume that expenses incurred
10 by a utility are reasonable and incurred in good faith. Second, unlike the operating
11 subsidiary in Kentucky, UUC has an agreement with Water Service Corporation, or
12 “WSC”, which allows UUC and the entities which regulate it to review any and all
13 information with respect to the services provided by WSC, the costs of same, and the
14 allocation of same among all UI operating subsidiaries. This agreement, a copy of which
15 is attached as JDW Rebuttal Exhibit 1, also specifically provides that these allocated
16 costs cannot be marked up to provide WSC a profit. Finally, unlike in Kentucky, the
17 need for improvements in UI’s computer and software systems used by WSC to serve its
18 operating subsidiaries in South Carolina has already been independently determined in
19 the management audit that was conducted by Schumacher & Company of UI, WSC, and
20 UI’s South Carolina operating subsidiaries, which includes UUC.

21 **Q. WOULD YOU PLEASE EXPLAIN THE BASIS FOR YOUR LAST**
22 **STATEMENT?**

1 A. Yes. In Docket No. 2004-357-W/S, the South Carolina Office of Regulatory Staff
2 recommended to the Commission that a management audit should be performed. In
3 furtherance of this management audit, ORS initiated a Request for Proposal (RFP)
4 process with the South Carolina Materials Management Office to conduct a management
5 audit of Water Services Corporation with regard to CWS, Tega Cay Water Services, Inc.,
6 Utilities Services of South Carolina, Inc., Southland Utilities, Inc., and UUC. ORS stated
7 that the selected contractor would be “to conduct a management audit on Water Services
8 Corporation in the following three areas: 1) Basic Corporate Decision-Making; 2) Major
9 Operational Activities; and 3) Staff Function.” The Commission approved the
10 Management Audit by way of its Order No. 2006-284, dated May 17, 2006, in Docket
11 Nos. 2004-357-W/S, 2006-92-W/S, 2006-97-W/S, and 2006-107-W/S. Thereafter,
12 Schumacher and Company performed a management audit of UI and its subsidiaries and
13 released its report on April 2, 2007, which was subsequently filed with the Commission
14 by ORS on May 7, 2007.

15 **Q. DID THIS MANAGEMENT AUDIT ADDRESS UI’S COMPUTER SYSTEMS AND**
16 **SOFTWARE?**

17 A. Yes, it did. It made certain recommendations to UI and WSC which, directly or
18 indirectly, constituted recommendations for improvements to computer systems and
19 software. These recommendations, included, but are not limited to, the following:

- 20 • Redesign of customer service functions to include a consolidation of activities
21 into fewer locations, adoption of newer call center technologies, and improvement
22 of other business processes. (Recommendation III-2)

- Emphasis on increased use of time reporting for allocation purposes once the Accuterm system has been replaced. (Recommendation III-3).
- Begin properly reporting customer data to the Public Service Commission of South Carolina and the South Carolina Office of Regulatory Staff in annual reports. (Recommendation III-4)
- Expedite implementation of a new accounting system to allow for increased automation of the allocation process. (Recommendation III-5)

Additionally, as identified on page 46, the management audit states as follows:

Over the last ten years with the advent of newer technologies, utilities have been reducing the number of call centers, implementing automatic call director technologies, and implementing various bill payment methods (electronic, credit card, etc.) and bill processing technologies. Utilities develop specific measurements to measure performance in call centers and bill processing centers. Some of these measures would include:

- Average speed of answer
- Average handling time
- % bills processed day received
- % bills handled manually

Many of these measurements are actually only possible with the installation of certain technologies – none of which WSC currently has employed. Without such indicators, it is not possible to objectively measure performance in the customer service area. Business processes will need to be modified with the adoption of these newer technologies.

(Emphasis supplied.)

Q. ARE THESE RECOMMENDATIONS CONSISTENT WITH CONCERNS EXPRESSED BY THE COMMISSION TO UI OPERATING SUBSIDIARIES IN SOUTH CAROLINA?

A. Yes. For example, I am aware that the Commission has expressed concerns over the years regarding the timeliness of responses to customer inquiries and the collection and retention of customer complaint data. Schumacher and Company identified both of these concerns in its management

1 audit. The additions to rate base associated with the computer and software
2 systems address these concerns.

3 **Q. HAS THE COMMISSION INDICATED TO UI OPERATING**
4 **SUBSIDIARIES THAT PURSUIT OF THE MANAGEMENT AUDIT**
5 **RECOMMENDATIONS IS IMPORTANT TO THE COMMISSION?**

6 A. Yes, it has. Since the issuance of the management audit report, the
7 Commission has inquired of UI operating subsidiaries about a number of the
8 recommendations made in the management audit, including performance of
9 market studies for affiliate transactions and consideration of consolidation of
10 operating entities to name just two. The additions to rate base criticized by Ms.
11 Conover directly address concerns which were presented through the management
12 audit at the request of ORS and as approved by the Commission. Because these
13 improvements address many of the concerns raised in the management audit, the
14 Company believes that they have been beneficial to the Company, its customers,
15 and the regulators.

16 **Q. WOULD YOU DESCRIBE HOW THESE IMPROVEMENTS HAVE BEEN**
17 **BENEFICIAL?**

18 A. Yes. As a result of these improvements, UUC, its customers, and ORS should see
19 marked improvements in UUC's operations. Generally speaking, the enhanced record
20 keeping and retrieval functions associated with the computer and software improvements
21 will allow for faster, easier and more accurate production of financial and regulatory
22 reports. This allows the Company to respond more quickly and to facilitate the

1 regulatory process. Customers should also realize benefits from these changes through
2 an improved management decision making process which will allow the Company to
3 more efficiently deliver reliable information to regulators. For example, customer data
4 can now be more accurately and quickly reported to ORS and the Commission in annual
5 reports which directly addresses Recommendation III-4 of the management audit. The
6 system also reduces manual effort and reliance on spreadsheets which again improves the
7 reliability of reports. As well, the new accounting system allows for increased
8 automation of the cost allocation process, thus ensuring that each subsidiary bears its
9 proportionate share of the shared costs through the operations of WSC. And, these
10 improvements enhance time reporting of the WSC employees for allocation purposes. In
11 these regards, Project Phoenix directly addresses Recommendations III-3 and III-5 of the
12 management audit.

13 With regard to the benefits customers will realize, the transition to Customer Care
14 and Billing (“CC&B”) from UI’s previous customer and billing system (the “Legacy
15 System”), resulted in many improvements and addresses many of the concerns set forth
16 in the management audit. For example, CC&B allows field activity information at a
17 customer premise to be stored in the records indefinitely, allowing field personnel to
18 retain prior history of past service issues at a residence. This allows the Company to act
19 in a cost-effective manner when considering repair or replacement of equipment or lines
20 at a customer premise, thus addressing Recommendation III-1 of the management audit.

21 In addition, CC&B addresses many of the concerns set forth in Recommendation
22 III-2 of the management audit relating to customer service functions. For instance, CC&B

1 automates field activity dispatching and allows for uploading and downloading to hand-
2 held devices. This in turn allows the field operators to complete field activities in a live
3 environment so that CSR's (customer service representatives) have the information
4 available to them as soon as the order is completed. Therefore, this enhanced capability
5 allows the Company to more directly, accurately, and quickly respond to its customers
6 who, many times, are not at their premises when they call customer service to inquire
7 about the status of a customer service matter. In addition, customer bills generated by
8 CC&B demonstrate the enhanced information retrieval capabilities of the CC&B system
9 and allow a customer to compare the customer's consumption to prior months, as well as
10 the same month from the previous year. UI believes this is useful information for
11 customers who desire to be cognizant of consumption trends – which most customers
12 should and do. This enhanced information therefore allows customers the ability to
13 review their account history, to make more informed decisions about their service, and to
14 recognize changes in their service usage. These functionalities either did not exist, or
15 required significantly more time and effort to discharge, under the Legacy system.

16 In addition, the CC&B system has several other improvements which address the
17 customer service findings and recommendations of the management audit. For instance,
18 the system:

- 19 • Provides for the automatic proration of billings based on number of days in
20 read period or bill period.
- 21 • Provides more efficient means of billing customers who have one account, but
22 more than one premises.
- 23 • Delivers more account history to CSRs which can be used to answer questions
24 from customers.

- Gives Field Operators access to customer premise and service point information as well as meter information and meter readings, which was not remotely available before, thus making field response times quicker and more efficient.
- Allows account numbers to stay with customers for life. This gives the Company the ability to track a customer from location to location and eliminates any customer confusion about account information.
- Displays more information on one screen for customer service to assist customers.
- Configures the Collections and Severance process automatically which reduces error from input and, thus, errors in terminations of service.
- Provides real time updates to the system regarding completion of field activities, payments and adjustments, and customer information
- Gives customers the ability to view their account using the internet and have access to billing information and to update their account information
- Allows for quicker return of information to the user and allows for quicker fixes should the system need to go down for routine maintenance or otherwise.

Q. HAVE THESE IMPROVEMENTS TO COMPUTER AND SOFTWARE SYSTEMS ALLOWED THE COMPANY TO ADDRESS OTHER RECOMMENDATIONS MADE IN THE MANAGEMENT AUDIT?

A. Yes. Most notably, these improvements to UI's computer and software have allowed UUC to implement management audit Recommendation III-2 which, as I noted above, states that UI's operating subsidiaries should redesign their customer service functions so as to consolidate these activities in fewer locations using call center technologies.

Q. HOW HAS THIS SPECIFIC RECOMMENDATION BEEN ADDRESSED?

A. Using the enhanced capabilities of our new computer and software systems, we have been able to reduce by four the number of customer service representatives located

1 in our West Columbia office and consolidate many customer service activities in our
2 Charlotte office.

3 **Q. HAS THIS REDUCTION IN THE NUMBER OF CUSTOMER SERVICE**
4 **REPRESENTATIVES AFFECTED UUC'S ALLOWABLE EXPENSES?**

5 A. Yes. The adjustments to the Company's expenses to account for this are
6 addressed in Ms. Georgiev's rebuttal testimony.

7 **Q. WILL THIS REDUCTION IN THE NUMBER OF EMPLOYEES RESULT IN A**
8 **CLOSURE OF THE WEST COLUMBIA OFFICE THE COMPANY**
9 **CURRENTLY USES?**

10 A. No. There will be four operations management and three operations support
11 personnel who will continue to work out of this office, one of whom will serve as a
12 liaison between operations and customer service. In addition, another employee whose
13 function will be to provide administrative services to the management personnel has been
14 added and will also work out of this office. Seventeen field operators who also use the
15 building will continue to work out of the West Columbia office. Therefore, the total
16 number of employees working out of the West Columbia office will be twenty five,
17 which is only three less than before the customer service function was consolidated with
18 the Charlotte office.

19 **Q. WILL UUC EXPERIENCE A DECREASE IN THE VOLUME OF CUSTOMER**
20 **SERVICE REQUIRED AS A RESULT OF THE CONSOLIDATION OF IT**
21 **CUSTOMER SERVICE FUNCTIONS IN THE CHARLOTTE OFFICE?**

1 A. No. The Company will still be serving the same number of customers using the
2 same amount of plant, and therefore will experience the same volume of customer service
3 demands. The difference, however, is that with the consolidated customer service
4 activities made possible by the improvements to our computer and software systems, this
5 work will be performed more efficiently – which is one of the outcomes the management
6 audit was intended to foster.

7 **Q. WHAT IMPACT WILL THE CONSOLIDATION OF THE CUSTOMER**
8 **SERVICE FUNCTION HAVE ON UUC’S CUSTOMERS?**

9 A. The impact should be minimal, if any. Customers will continue to be able to
10 discuss service and billing issues with a customer service representative telephonically,
11 with the only difference in that function being that the customer service representative
12 will be located in a different location. This should make no difference to the customer.
13 Customers will not, however, be able to continue making bill payments at our West
14 Columbia office. However, the closest UUC customers to our West Columbia office are
15 located in Greenwood and Union counties. Therefore, we rarely, if ever, have UUC
16 customers coming to the office for any account-related activities such as bill payments.
17 And, the Company has actually expanded the number of locations where bill payments
18 may be made. UUC’s customers will continue to be able to make bill payments through
19 the mail, via credit card through our 800 number, or by way of automatic bill drafting of
20 their personal checking accounts. In addition, if the Commission approves the proposed
21 modification to our rate schedule to allow for payments via the internet, customers will
22 have the additional option of paying their bills electronically.

1 Each of these changes clearly enhances the service the Company is able to
2 provide to its customers. These improvements allow for quicker, more accurate, and
3 more informative reporting to the Commission and ORS as to its operations. As well,
4 this comprehensive and consolidated system allows the Company to more quickly
5 address customer service issues and to provide the customer with immediate information
6 regarding their account. Therefore, UUC believes that these improvements have clearly
7 benefitted UUC and its customers.

8 **Q. MR. WILLIAMS, WITH REGARD TO THE AGREEMENT ATTACHED TO**
9 **YOUR TESTIMONY AS JDW REBUTTAL EXHIBIT 1, DOES IT ADDRESS**
10 **ANY RECOMMENDATION OF THE MANAGEMENT AUDIT?**

11 A. Yes. Recommendation II-4 of the management audit provides that a formal
12 agreement between WSC and UUC should be entered into. This was done, as the exhibit
13 reflects, on December 19, 2007, and was in effect during the proposed test year in this
14 case.

15 **Q. COULD YOU ADDRESS MR. MORGAN'S TESTIMONY REGARDING THE**
16 **COMPANY'S PROPOSED INCREASE TO THE CUSTOMER NOTIFICATION**
17 **FEE?**

18 A. Certainly. Mr. Morgan states that the Company has already included the cost of
19 administrative/clerical time in its expenses under general expenses for salary and wages.
20 Therefore, ORS recommends that the notification fee be \$6.00 instead of the \$24.00
21 proposed by the Company.

22 **Q. DO YOU AGREE WITH ORS'S RECOMMENDATION?**

1 A. No, I do not. Mr. Morgan's recommendation is that the Company's costs incurred
2 to send the required notice should be recovered through revenue generated from the
3 Company's rates. While this method would allow the Company to recover its necessarily
4 incurred costs, all of UUC's customers would then bear the increased cost of sending the
5 required notice to delinquent customers. I do not believe this would be appropriate,
6 largely because the notification fee is not designed to generate revenue for the Company,
7 as are rates. Rather, this charge is imposed instead of rates in order to collect these
8 expenses directly caused by an individual delinquent customer. UUC believes that, in
9 instances such as these where a customer directly causes an expense to be incurred by the
10 Company, the individual customer should directly bear that cost. Pursuant to Mr.
11 Morgan's proposal, all customers would bear this cost, which the Company does not
12 believe is reasonable. I would also note that UUC's proposed fee is less than a
13 comparable fee of \$25.00 which the Commission approved for Palmetto Utilities, Inc. by
14 way of its Order No. 2001-679, dated July 27, 2001, in Docket No. 2001-165-S.

15 Q. **DO YOU AGREE WITH THE RECOMMENDATION BY ORS THAT TEST**
16 **YEAR UNCOLLECTIBLES SHOULD BE REDUCED?**

17 A. No, I do not. The uncollectibles stated in the company's filing is an actual
18 amount that was incurred during the test year. To arbitrarily reduce the amount by some
19 percentage is not appropriate. As the Commission is aware, UUC has only a small
20 number of water customers, with most of the customer base being wastewater customers
21 whose water service is provided by another entity. The primary means by which utilities
22 providing both water and wastewater utilities are able to enforce payment is the threat of

1 disconnection of water service if payment isn't made within the appropriate time frame
2 set out in their approved rate schedules and Commission regulations. Although this tool
3 is also available to a utility that provides wastewater service only, it is not nearly as
4 effective. This is so because it is much more complicated and costly to discontinue sewer
5 service only than it is to discontinue sewer service to a customer who is provided both
6 water and wastewater. As to the latter, the disconnection of water service alone
7 effectively disconnects the wastewater service as well. Therefore, it would not be
8 unusual for a utility such as UUC to have a relatively high amount of uncollectibles when
9 compared to utilities providing both water and sewer. Recognizing the actual amount of
10 uncollectibles in the test year for UUC is the proper way to establish utility rates for the
11 future.

12 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

13 **A. Yes, it does.**

AGREEMENT

Agreement dated December 19, 2007 between Water Service Corp., a Delaware corporation (hereinafter called the "**Service Company**") and United Utility Companies, Inc. (hereinafter called the "**Operating Company**");

WHEREAS, both the Service Company and the Operating Company are subsidiaries of or affiliated with Utilities, Inc., an Illinois corporation (hereinafter called the "**Parent**"); and

WHEREAS, the Service Company maintains an organization which includes among its officers and employees, persons who are familiar with the development, business and property of the Operating Company and are experienced in the conduct, management, financing, construction, accounting and operation of water and sewer properties and are qualified to be of great aid and assistance to the Operating Company through the services to be performed under this Agreement; and

WHEREAS, the Service Company has or proposes to enter into agreements similar to this Agreement with certain affiliated water and/or sewer companies (hereinafter referred to collectively as the "**Operating Companies**"); and

WHEREAS, the services to be rendered under this Agreement are to be rendered at cost and without profit to the Service Company;

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained, the parties hereto agree as follows:

The Service Company will furnish to the Operating Company, upon the terms and conditions hereinafter set forth, the following services:

- A. EXECUTIVE: The principal executive officers of the Service Company, such as the Chairman of the Board, President and Vice Presidents, and Treasurer will assist and advise the Operating Company in respect to corporate, financial, operating, engineering, organization, regulatory, and other

problems. They will keep themselves informed in regard to the operation, maintenance and financial condition of, and other matters relating to, the Operating Company through contacts with the officers, directors and other representatives of the Operating Company. Such officers of the Service Company will visit the property of the Operating Company when necessary to the proper furnishing of the services provided for in this Agreement. They will also supervise the personnel of the Service Company to the end that services under this Agreement shall be performed efficiently, economically and satisfactorily to the Operating Company.

- B. ENGINEERING: The Service Company will supply engineering services as required in all areas of design, construction, operation and management of the Operating Company.
- C. OPERATING: The Service Company will furnish competent personnel to perform and/or control all normal operating functions, including pumping, treatment, and distribution as well as maintenance of all equipment and facilities. These responsibilities will include testing and record keeping to insure compliance with all state and local regulatory agency requirements.
- D. ACCOUNTING: The Service Company will provide total accounting service, including bookkeeping, payroll, tax determination, financial statement preparation, budgets, credit, P.S.C. annual reports, etc. Periodic analyses will be made for purposes of planning and measurement of efficiency.
- E. LEGAL: The Service Company will employ general counsel as necessary to advise and assist it in the performance of the services herein provided for and to aid the operating company in all matters where such assistance may be desired.
- F. BILLING AND CUSTOMER RELATIONS: The Service Company will handle all billing and collections. It will serve as the link between the customer and

the Operating Company in all areas such as new accounts, deposits, meter reading, inquiries, and complaints.

- G. CONSTRUCTION: The Service Company will perform directly or supervise all construction, including customer connections, meter installations, main extensions, plant expansions, or capital additions of any nature as required by the Operating Company.
- H. ALL OTHER SERVICES AS PROVIDED FOR IN APPENDIX A: In addition to items (A) through (G), the Service Company will employ or provide personnel to perform the attached services, or in the instance of assets. Liabilities, and associated non-cash items, has incurred costs associated with providing service to the corporate headquarters, regional areas, or to all operating companies as a whole. The allocated costs from these services will be for costs attributable to all operating companies, costs attributable to the Service Company, or for costs that cannot, without excessive effort and expense, be directly identified and related to services rendered to a particular operating company.

In consideration for the services to be rendered by the Service Company as hereinabove provided, the Operating Company agrees to pay to the Service Company the cost of said services. Said cost shall not include a markup for profit. In addition, the Operating Company agrees to pay to the Service Company its share of the cost of the investment in the Service Company rate base, including depreciation, amortization, interest on debt and a return on the equity invested.

All costs of the Service Company, including salaries and other expenses, incurred in connection with services rendered by the Service Company for the Operating Companies which can, without excessive effort or expense, be identified and related to services rendered to a particular Operating Company, shall be charged directly to such company. Examples of such costs to be directly allocated include salary and other expenses incurred for specific projects such as rate cases, construction projects, legal proceedings, etc. Similarly, all such costs which may be identified and related to

services rendered to a particular group of the Operating Companies shall be charged directly to such group of the Operating Companies.

All such costs which, because of their nature, cannot, without excessive effort or expense, be identified and related to services rendered to a particular Operating Company, shall be allocated among all the Operating Companies, in the manner hereinafter set forth.

First, the allocable costs shall be distributed on a monthly basis, unless the Parent should elect to make a supplementary analysis for a special purpose.

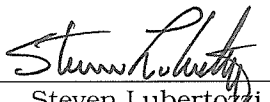
Secondly, these costs will be prorated on the basis of the proportion of active Equivalent Residential Customers ("ERCs") served by the Operating Company to the total number of active ERCs served by the Parent and its affiliates (including, without limitation, the Operating Company), determined as of the end of each month. For purposes of this Agreement, the number of ERCs attributable to each water and sewer connection maintained by the Parent and its affiliates (including, without limitation, the Operating Company) will be determined by applying the formulae set forth in Appendix B.

The Service Company will also at any time, upon request of the Operating Company, furnish to it any and all information required by the Operating Company or by any governmental authorities having jurisdiction over the Operating Company with respect to the services rendered by the Service Company hereunder, the cost thereof and the allocation of such cost among the Operating Companies. In the case of services in connection with construction, the Service Company will, to the extent practicable, furnish to the Operating Company such information as shall be necessary to permit the allocation of charges for such services to particular work orders.


This Agreement shall be in full force and effect from the date as hereinabove mentioned and shall continue in full force and effect until termination by either of the parties hereto upon ninety days notice in writing.

IN WITNESS WHEREOF, the Service Company and the Operating Company have caused these presence to be signed in their respective corporate names by their respective Presidents or Vice Presidents, and attest by their respective Secretaries or Assistant Secretaries, all as of the day and year first above written.

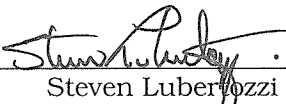
Water Service Corporation

BY _____
Steven Lubertozi
Vice President and Chief Financial
Officer

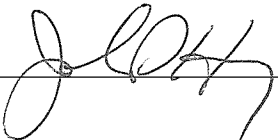
Attest

_____

United Utility Companies, Inc.

BY _____
Steven Lubertozi
Vice President and Chief Financial
Officer

Attest

_____

JDW Rebuttal Exhibit 1

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AFFILIATE AGREEMENT APPENDIX A

The following list includes expense accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc. operating companies at a business unit level:

JDE Object Number	Account Description
5505	Agency Expense
5525	Bill Stock
5530	Billing Computer Supplies
5535	Billing Envelopes
5540	Billing Postage
5545	Customer Service Printing
5625	401K/ESOP Contributions
5630	Dental Premiums
5635	Dental Ins Reimbursements
5640	Emp Pensions & Benefits
5645	Employee Ins Deductions
5650	Health Costs & Other
5655	Health Ins Reimbursements
5660	Other Emp Pensions/Benefits
5665	Pension Contributions
5670	Term Life Ins
5675	Term Life Ins - Opt
5680	Depend Life Ins - Opt
5685	Supplemental Life Ins
5690	Tuition
5700	Insurance - Vehicle
5705	Insurance - Gen Liab
5710	Insurance - Workers Comp
5715	Insurance - Other
5735	Computer Maintenance
5740	Computer Supplies
5745	Computer Amort & Prog Cost
5750	Internet Supplier
5755	Microfilming
5760	Website Development
5785	Advertising/Marketing
5790	Bank Service Charges
5795	Contributions
5800	Letter of Credit Fee
5805	License Fees
5810	Memberships
5815	Penalties/Fines
5820	Training Expense
5825	Other Misc Expense
5855	Answering Service
5855	Answering Service
5860	Cleaning Supplies
5865	Copy Machine
5870	Holiday Events/Picnics
5875	Kitchen Supplies
5880	Office Supply Stores
5885	Printing/Blueprints
5890	Publ Subscriptions/Tapes
5895	Shipping Charges
5900	Other Office Expenses
5930	Office Electric
5935	Office Gas
5940	Office Water
5945	Office Telecom
5950	Office Garbage Removal
5955	Office Landscape / Mow / Plow
5960	Office Alarm Sys Phone Exp
5965	Office Maintenance
5970	Office Cleaning Service
5975	Office Machine/Heat&Cool
5980	Other Office Utilities
5985	Telemetering Phone Expense
6005	Accounting Studies
6010	Audit Fees
6015	Employ Finder Fees
6020	Engineering Fees
6025	Legal Fees
6030	Management Fees
6035	Payroll Services
6040	Tax Return Review
6045	Temp Employ - Cleri
6050	Other Outside Serv
6075	Water Resource Conserve Exp
6090	Rent
6105	Salaries - System Project
6110	Salaries - Acctg/Finance
6115	Salaries - Admin
6120	Salaries - Officers/Stkhdr
6125	Salaries - HR
6130	Salaries - MIS

The following list includes asset and liability accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc. operating companies:

JDE Object Number	Subsidiary Number	Account Description
1030		Land & Land Rights Pump
1035		Land & Land Rights Wtr Trt
1040		Land & Land Rights Trans Dist
1045		Land & Land Rights Gen Plt
1175		Office Struct & Imprv
1180		Office Furn & Eqpt
1190		Tool Shop & Misc Eqpt
1205		Communication Eqpt
1260		Land & Land Rights Intang Plt
1265		Land & Land Rights Coll Plt
1270		Land & Land Rights Trmnt Plt
1275		Land & Land Rights Reclaim Wtp
1280		Land & Land Rights Rel Dst Plt
1285		Land & Land Rights Gen Plt
1455		Office Struct & Imprv
1460		Office Furn & Eqpt
1470		Tool Shop & Misc Eqpt
1485		Communication Eqpt
1575		Desktop Computer Wtr
1580		Mainframe Computer Wtr
1585		Mini Computers Wtr
1590		Comp Sys Cost Wtr
1595		Micro Sys Cost Wtr
1605		Desktop Computer Swr
1610		Mainframe Computer Swr
1615		Mini Computers Swr
1620		Comp Sys Cost Swr
1625		Micro Sys Cost Swr
1741		Other Plant In Process History
1745	00301	Wip-Cap Time Office Renovation
1745	00302	Wip-Cap Time Electrical
1745	00303	Wip-Cap Time Lab Expansion
1745	00304	Wip-Cap Time Computer Equipmnt
1745	00305	Wip-Cap Time Computer Software
1745	00306	Wip-Cap Time Radio Equipment
1746	00301	Wip - Interest During Constr
1746	00302	Wip - Interest During Constr
1746	00303	Wip - Interest During Constr
1746	00304	Wip - Interest During Constr
1746	00305	Wip - Interest During Constr
1746	00306	Wip - Interest During Constr
1747	00303	Wip - Labor/Installation
1747	00304	Wip - Labor/Installation
1747	00305	Wip - Labor/Installation
1748	00302	Wip - Equipment
1748	00303	Wip - Equipment
1748	00304	Wip - Equipment
1748	00306	Wip - Equipment
1749	00301	Wip - Material
1749	00302	Wip - Material
1749	00303	Wip - Material
1749	00304	Wip - Material
1749	00305	Wip - Material
1749	00306	Wip - Material
1750	00301	Wip - Electrical
1751	00301	Wip - Site Work
1752	00301	Wip - Contractor/Labor
1752	00302	Wip - Contractor/Labor
1753	00301	Wip - Architect/Designer
1753	00302	Wip - Architect/Designer
1753	00303	Wip - Architect/Designer
1754	00303	Wip - Building Addition
1755	00301	Wip - Furniture
1755	00302	Wip - Furniture
1756	00301	Wip - Heating/Air Condition
1756	00302	Wip - Heating/Air Condition
1757	00301	Wip - Interior Finish
1757	00302	Wip - Interior Finish
1758	00305	Wip - Modification/Convert
1759	00304	Wip - Remodeling
1769	00301	Wip - Transfer To Fixed Assets
1769	00302	Wip - Transfer To Fixed Assets
1769	00303	Wip - Transfer To Fixed Assets
1769	00304	Wip - Transfer To Fixed Assets
1769	00305	Wip - Transfer To Fixed Assets
1769	00306	Wip - Transfer To Fixed Assets
1771		Deferred Plant In Process History
1775	00401	Wip-Cap Time Water Tower Paint
1775	00402	Wip-Cap Time W/S Plt Paint
1775	00403	Wip-Cap Time Water Tank Paint
1775	00404	Wip-Cap Time Clean Sewer Line

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The following list includes expense accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc. operating companies at a business unit level

JDE Object Number	Account Description
6135	Salaries - Leadership Ops
6140	Salaries - Regulatory
6145	Salaries - Customer Service
6185	Travel Lodging
6190	Travel Airfare
6195	Travel Transportation
6200	Travel Meals
6205	Travel Entertainment
6207	Travel Other
6355	Deferred Maint Expense
6360	Communication Expense
6365	Equipment Rentals
6385	Uniforms
6390	Weather/Hurricane Costs
6580	Deprec-Office Structure
6585	Deprec-Office Furn/Eqpt
6610	Deprec-Communication Eqpt
6615	Deprec-Misc Equipment
6820	Deprec-Office Structure
6825	Deprec-Office Furn/Eqpt
6850	Deprec-Communication Eqpt
6855	Deprec-Misc Equipment
6920	Deprec-Computer
7510	FICA Expense
7515	Federal Unemployment Tax
7520	State Unemployment Tax
7535	Franchise Tax
7540	Gross Receipts Tax
7545	Personal Property/ICT Tax
7550	Property/Other General Tax
7555	Real Estate Tax
7560	Sales/Use Tax Expense
7565	Special Assessments
7665	Extraordinary Gain/Loss
7670	Extraordinary Deductions
7680	Rental Income
7685	Interest Income
7690	Sale of Equipment

The following list includes asset and liability accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc. operating companies

JDE Object Number	Subsidiary Number	Account Description
1030		Land & Land Rights Pump
1775	00405	Wip-Cap Time Chng Filter Media
1775	00406	Wip-Cap Time Tv Sewer Main
1775	00407	Wip-Cap Time Sludge & Hauling
1775	00408	Wip-Cap Time W/S Plt Landscape
1776	00401	Wip - Interest During Constr
1776	00402	Wip - Interest During Constr
1776	00403	Wip - Interest During Constr
1776	00404	Wip - Interest During Constr
1776	00405	Wip - Interest During Constr
1776	00406	Wip - Interest During Constr
1776	00407	Wip - Interest During Constr
1776	00408	Wip - Interest During Constr
1777	00408	Wip - Engineering
1778	00401	Wip - Labor/Installation
1779	00401	Wip - Equipment
1779	00404	Wip - Equipment
1779	00406	Wip - Equipment
1780	00401	Wip - Material
1780	00402	Wip - Material
1780	00403	Wip - Material
1780	00404	Wip - Material
1780	00405	Wip - Material
1780	00406	Wip - Material
1780	00407	Wip - Material
1780	00408	Wip - Material
1781	00408	Wip - Site Work
1782	00401	Wip - Contractor/Labor
1782	00402	Wip - Contractor/Labor
1782	00403	Wip - Contractor/Labor
1782	00405	Wip - Contractor/Labor
1782	00406	Wip - Contractor/Labor
1783	00404	Wip - Grouting/Sealing
1784	00404	Wip - Jet Cleaning
1785	00407	Wip - Pump & Haul Sludge
1786	00404	Wip - Rental/Machine
1786	00405	Wip - Rental/Machine
1787	00402	Wip - Repair
1787	00403	Wip - Repair
1799	00401	Wip - Transfer To Fixed Assets
1799	00402	Wip - Transfer To Fixed Assets
1799	00403	Wip - Transfer To Fixed Assets
1799	00404	Wip - Transfer To Fixed Assets
1799	00405	Wip - Transfer To Fixed Assets
1799	00406	Wip - Transfer To Fixed Assets
1799	00407	Wip - Transfer To Fixed Assets
1799	00408	Wip - Transfer To Fixed Assets
1970		Acc Depr-Office Structure
1975		Acc Depr-Office Furn/Eqpt
1985		Acc Depr-Tool Shop & Misc Eqpt
2000		Acc Depr-Communication Eqpt
2215		Acc Depr-Office Structure
2220		Acc Depr-Office Furn/Eqpt
2230		Acc Depr-Tool Shop & Misc Eqpt
2245		Acc Depr-Communication Eqpt
2315		Acc Depr-Desktop Computer Wtr
2320		Acc Depr-Mainframe Comp Wtr
2325		Acc Depr-Mini Comp Wtr
2330		Comp Sys Amortization Wtr
2335		Micro Sys Amortization Wtr
2345		Acc Depr-Desktop Computer Swr
2350		Acc Depr-Mainframe Comp Swr
2355		Acc Depr-Mini Comp Swr
2360		Comp Sys Amortization Swr
2365		Micro Sys Amortization Swr
2950		Def Chgs-Landscaping
2955		Def Chgs-Customer Complaints
2960		Def Chgs-Tank Maint&Rep Wtr
2965		Def Chgs-Relocation Expenses
2970		Def Chgs-Attorney Fee
2975		Def Chgs-Hurricane/Storms Cost
2980		Def Chgs-Emp Fees
2985		Def Chgs-Other
3000		Def Chgs-Other Wtr & Swr
3005		Def Chgs-Voc Testing
3020		Def Chgs-Sludge Hauling
3025		Def Chgs-Pr Wash/Jet Swr Mains
3030		Def Chgs-Tv Sewer Mains
3040		Def Chgs-Tank Maint&Rep Swr
3080		Amort - Landscaping
3090		Amort - Customer Complaints

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The following list includes expense accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc. operating companies at a business unit level:

JDE Object Number	Account Description
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The following list includes asset and liability accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc. operating companies:

JDE Object Number	Subsidiary Number	Account Description
1030		Land & Land Rights Pump
3110		Amort - Tank Maint&Rep Wtr
3120		Amort - Relocation Exp
3125		Amort - Attorney Fee
3130		Amort - Hurricane/Storms
3135		Amort - Employee Fees
3140		Amort - Other
3155		Amort - Other Wtr & Swr
3160		Amort - Voc Testing
3175		Amort - Sludge Hauling
3180		Amort - Pr Wash/Jet Swr Mains
3185		Amort - Tv Sewer Mains
3195		Amort - Tank Maint&Rep Swr
4367		Accum Def Income Tax-Fed
4369		Def Fed Tax - Ciac Pre 1987
4371		Def Fed Tax - Tap Fee Post 2000
4373		Def Fed Tax - Idc
4375		Def Fed Tax - Rate Case
4377		Def Fed Tax - Def Maint
4379		Def Fed Tax - Other Operation
4381		Def Fed Tax - Sold Co
4383		Def Fed Tax - Orgn Exp
4385		Def Fed Tax - Bad Debt
4387		Def Fed Tax - Depreciation
4389		Def Fed Tax - Nol
4391		Def Fed Tax - Cont Prop
4393		Def Fed Tax - Amt
4395		Def Fed Tax - Pre Acrs
4397		Def Fed Tax - Res Cap Fee
4417		Accum Def Income Tax - St
4419		Def St Tax - Ciac Pre 1987
4421		Def St Tax - Tap Fee Post 2000
4423		Def St Tax - Idc
4425		Def St Tax - Rate Case
4427		Def St Tax - Def Maint
4429		Def St Tax - Other Operation
4431		Def St Tax - Sold Co
4433		Def St Tax - Orgn Exp
4435		Def St Tax - Bad Debt
4437		Def St Tax - Depreciation
4439		Def St Tax - Nol
4441		Def St Tax - Cont Prop
4443		Def St Tax - Amt
4445		Def St Tax - Res Cap Fee

AFFILIATE AGREEMENT
APPENDIX B

The formula used to calculate all allocations is as follows:

Expenses:

Active ERC count for business unit/Active ERC count for all UI operating business units

Assets/Liabilities:

Active ERC count for company/Active ERC count for all UI operating companies